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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

William F. Caton
Secretary
Federal Communications Commission
1919 M. Street, N.W.
Washington D.C. 20554

Re: Ex parte contact in CC Docket Nos. 96-98; 96-45; 96-112; and 94-1.

Dear Mr. Caton:

On June 27, 1996 James Blaszak, Colleen Boothby, and Dr. Lee Selwyn, on behalf of the Ad Hoc Telecommunications Users Committee, met with James Schlichting, Chief of the Competitive Pricing Division, Joseph Farrell, Chief Economist, and James Casserly, Senior Legal Advisor to Commissioner Ness to discuss the above-referenced dockets.

During the morning of June 28, 1996, Mr. Blaszak, Ms. Boothby, and Dr. Selwyn met with Regina Keeney, Chief of the Common Carrier Bureau, to discuss the same matters. The substance of the discussions at the meetings is reflected on the enclosure hereto, which was distributed to Commission personnel at the meetings.

Pursuant to 47 C.F.R. Section 1.1206(a)(1) two copies of this letter are being filed with the Secretary of the Commission today.

Sincerely

James S. Blaszak

Enclosure

200.03/ex9698.doc

Managing the Gap -- TSLRIC v. FDC

1. **Clean out the rate base (reduce the gap)**
2. **Isolate "legacy" dollars**
3. **Establish recovery mechanism**

#1

Part 64
Revise reg/non-reg cost allocations;
re-allocate costs of strategic over-building

Price Caps
"X" factor adjustment and rate reduction

Isolating The "Gap":

TSLRIC (competitive) prices
v.
FDC (regulatory) prices

§ 251 Interconnection
TSLRIC pricing for interconnection elements

Access Reform
Conform access to § 251 rules with TSLRIC pricing

Universal Service reform

Price Caps Reform
Abandon "no-sharing" option
Correct the "X" factor

2

"Legacy" costs:

- Regulatory distortions in cost recovery
- Vestigial gold-plating

3

Option A:

No entitlement to recovery from regulated services. Permission to **enter new markets creates opportunity to recover costs from** other services.

Price Caps Adjustment:

Raise sharing triggers.
Carriers who *can* earn more on a clean rate base *should*.

Option B:

One-time amortization of fixed amount, pegged to long-term cost of debt.
Create new rate element (cf. EARE for equal access conversion costs)

Price Caps Adjustment

Narrow sharing zones:
50%/100 basis points
100%/200 basis points

Option C:

LEC Option

LECS permitted to pick Option A or Option B

AD HOC TELECOMMUNICATIONS USERS COMMITTEE

CC Dkt. No. 96-112, *Allocation of Costs Associated with LEC Provision of Video Programming Services*

Proper allocation of ILEC costs between telephony services and nontelephony services, such as OVS, is critical to end users.

Adverse effect on rates.

Cross-subsidization is real.

Revenue requirement recovery and universal service support problems diminish.

Proper allocation of ILEC costs is a very relevant concern in a price cap regime

"X" Factor is affected by capital inputs and depreciation expense. If costs allocated to regulated services are reduced, the "X" Factor should increase and access and interconnection rates should decline.

Exogenous cost treatment is appropriate.

A "fixed" factor allocation of about 50% in combination with a cost ceiling benchmark based upon the stand alone forward-looking costs of providing telephony services is a good starting point.

Prevention of cross-subsidization of ILEC video ventures.

Telephony subscribers will appropriately share in the benefits of scope economies.

Competition will be well served.

AD HOC TELECOMMUNICATIONS USERS COMMITTEE

Price Caps and Proceedings To Implement '96 Act Are Interrelated

Part 64 and Universal Service dockets affect price cap indices.

ILEC capital expenditures and depreciation charges affect calculation of "X" factor, whether TFP or FU methodology is utilized.

Some ILECs are subject to sharing obligation; ILECs currently not subject to sharing can opt in the future to use "X" factor for which there is a sharing obligation.

Legality of eliminating sharing has been challenged.

IXN rates "could" be affected by "X" factor level.

AD HOC TELECOMMUNICATIONS USERS COMMITTEE

CC Dkt. 96-45, *Federal-State Joint Board on Universal Service*

Determining Size of Funding Requirement and Method

All implicit subsidies should be eliminated or made explicit; eliminate CCLC; SLC can be increased without sacrificing subscribership

Measure of LECs' recoverable costs should be TSLRIC, not FDC; former regulatory bargain changed by '96 Act's opening of competitive markets -- old cost recovery mechanisms would force competitors to subsidize incumbents

Revenues from Yellow Pages advertising, Class services, should be factored into funding requirement

Recipients

To determine "affordability," consider all relevant factors, *e.g.,* household income, geographic cost-of-living differences; one nationwide affordability target would be inaccurate and inappropriate

AD HOC TELECOMMUNICATIONS USERS COMMITTEE

CC Dkt. 96-98, *Implementation of Local Competition Provisions*

National interconnection requirements

Ccomprehensive, detailed, national template is required for quick and efficient implementation of Act

Users benefit -- cheaper service, transaction costs reduced

Competition benefits -- reduced regulatory compliance costs, scale economies of national entry

Diminishing returns from additional duplicative state proceedings do not justify federal inaction

Network elements

"Real" Open Network Architecture -- Commission must pro-actively prescribe more, not less, network element unbundling

Reduces entry costs for new competitors
Maximizes flexibility for users, IXCs, enhanced service providers ("ESPs"), and system integrators

Pricing standards

Forward-looking, well-defined total service long run incremental cost ("TSLRIC") protect against:

Shifting the risk of competition from the LECs to their ratepayers.

Cross-subsidizing LECs' competitive ventures with revenues derived from monopoly customers

Overpricing essential unbundled network elements

Expanded Interconnection demonstrates the need for clear pricing guidelines from the FCC for monopoly elements

Ad Hoc does not oppose a markup over TSLRIC to reflect a reasonable allocation of common costs.

Availability of interconnection features and functions

Nothing in the Act prohibits carriers from offering interconnection and unbundled network elements to users, IXCs, ESPs, system integrators, and other "third parties

Section 201 of the Communications Act authorizes tthe Commission o broaden access to *all* interconnection services and unbundled network elements.

Artificial distinctions between unbundled network elements for CLECs and Part 69 access for users, IXCs, system integrators, and enhanced service providers are doomed to failure. Artificial price distinctions among identical products are not sustainable over time.